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Is Vietnam the Right Choice for Foreign Investment?: The Case of the European Union's Slipping Opportunity

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Vietnam is a development success story. It has undergone a shift from an inward-looking centrally planned economy to a market oriented economy over the past twenty years. Enabled by this shift, Vietnam has steadily improved its GNI per capita and is now considered a lower-middle income country by the World Bank. In 2002, the average annual income was 430 USD; by 2007, the number had grown to 1,260 USD.[i] It is also one of the most active emerging markets in the region. In 2011, the GDP reached 124 billion USD. Vietnam is located on the eastern coast of the Southeast Asian peninsula. It borders the South China Sea. Internally, the nation is comprised of 63 provinces, 54 nationally recognized ethnic groups, and numerous languages. Vietnam is home for 87.8 million people. Consistent economic growth over the past twenty years has tremendously raised the living standard in Vietnam:

Figure 1: CIA World Factbook

during the 1990's Vietnam's economy grew by 7 to 9 percent annually. Excluding the global recession, which reduced growth to 5 percent annually, Vietnam continued this trend throughout the 2000s. (See appendix A for general statistics on Vietnam). For Vietnam, the work does not end here, to become competitive in the global economy requires further reduction of trade barriers, a more effective rule of law, and less cumbersome provisional regulations.

Foreign investment is widely considered to benefit developing economies. Along with bringing in new capital for investment, FDI has been shown to contribute to raising exports and integrate nations in networks of trade. Data taken from East Africa adds that foreign firms employ more people, they report a higher “value added” per worker contributing to the idea that FDI raises productivity in the host country, and finally foreign firms spend more to train their employees.[ii] FDI is attractive to nations which wish to raise gross national income per capita. However domestic investments, both private and public, also play a vital role. Foreign investment becomes all the more important if a nation lacks ample private savings to draw on or an operating surplus in the government budget. Foreign investment may be in portfolio markets, such as investments in government bonds, corporate bonds, or equity markets. However, emerging markets frequently have not yet developed robust capital markets leaving foreign dollars with one option: direct investment.

This is indeed the case in Vietnam; the government has run an operating deficit since 2007.[iii] At four percent of GDP in 2011, the deficit in Vietnam requires investment from private households or international sources. The private domestic savings rate in Vietnam (household savings) has been estimated to be at 14 percent of income.[iv] While this is higher, as we would expect, than many developed economies, it is much lower than the rates enjoyed by peer nations in the region and income class.[v] The absence of significant domestic savings, and thereby access to funds for investment, lends one solution: increase foreign direct investment to sustain economic growth. Vietnam has been able to do just that, however there remain hindrances on foreign investment, which Vietnam must remove in order to sustain the economic development.

This analysis is broken into three interdependent sections: First, an analysis of the restrictions placed on foreign direct investment in Vietnam captures the current freedoms and inhibitors of investment in Vietnam. Foreign direct investment is defined by the UN as an investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor.[vi] Second, a cursory look at the macroeconomic risks, to which investment dollars are susceptible, will paint a realistic portrait of return of foreign investment. Finally, this paper will examine the current, and historical, trade relationship between Vietnam and the European Union, in order to convey that the opportunity for investment in Vietnam remains to be an opportunity for Europe's developed economies.

Part One: Foreign Investment Restrictions in Vietnam

After the communist North reunited Vietnam by defeating the US backed South in 1975, Vietnam's economy was stagnate for 10 years. The restructuring of the economy was slow due to difficulties in production, bureaucratic mismanagement, and impediments in the process of privatization.[vii] In 1986 Nguyen Van Linh, a Communist Party Leader, introduced *Doi Moi*, or "Renovation", which created a "socialist-oriented market economy,"[viii] one in which private enterprise, and decentralized governmental industries were encouraged. Dr. Dao Duy Quat ushered in this new Vietnam by stating: "Renovation does not mean giving up the goal of socialism which our Party and people have chosen; renovation has nothing to do with transformation, renovation is to find suitable steps, forms and measures for successful building up of socialism. It is a definite affirmation of our path to socialism, passing over the capitalist development."[ix] Ever since the 1986

Renovations, the Government of Vietnam (GVN) has attempted to position itself positively in the mind of foreign investors. [x] As a result, Vietnamese leaders are working closely with economists to usher in stability, predictability of financial markets, and controlled long-term economic growth.

The idea of socialism has evolved over the past 30 years as the government tries to marry its ideals with the decentralization and liberalization of the economy. While many industries have been nationalized during this time, the GVN has shown a tremendous willingness to create an attractive environment for foreign direct investment. The following statues reflect the intention to open the Vietnamese economy to global markets; they will be referred to throughout this paper: Law on Investment 2005, Law on Land Use 2003, Law on Intellectual Property 2005, Decree 59, and finally the WTO provisions.[xi]

In 2007, Vietnam joined the WTO.[xii] Regulations included in this significant adoption increased transparency and leveled the playing field, in some industries, between domestic and foreign businesses operating in Vietnam. (See Appendix B for a breakdown of industry-specific investment regulations.) Since its inception into the WTO, Vietnam has dramatically increased its access to the United States economy importing both goods and services and has risen to the demands of a globally integrated economy by creating a competitive export sector. Significant barriers to further Vietnamese integration are already being affected by WTO regulations: transparency of public companies, commitments to reduce trade barriers, and new laws to protect intellectual property have been passed. The courts are increasingly able to protect contracts and enforce breaches to those contracts. For instance, the GVN has reduced import tariffs to 15% or less, consistent with the WTO requirement.[xiii] Vietnam will need to show continuous progress in these areas in order to become an attractive location for foreign investment. A recent symbol of progress is the 2011 statue which was passed to increase investor protection by requiring higher standards of accountability from public company directors.[xiv]

Specifically becoming a part of the WTO prohibits the government of Vietnam from privileging domestic goods or services and from requiring state owned enterprises (SOE) to purchase domestic goods. The government cannot use percentage quotas to dictate exports or imports; thereby it must allow market conditions to influence its trade relations. Of course GVN has tools through which it can incentivize foreign investment. Laws have been passed making foreign investors exempt from import duties on fixed capital which they plan to use in the country and they cannot purchase domestically.[xv] Thus advanced fixed capital can flow freely into the country. This includes all inputs for manufacturing and construction materials and raw materials for which Vietnam does not yet have an industry of its own.[xvi]

Hurdles the GVN now faces is a lack of infrastructure, especially in the mountainous regions, home to ethnic minorities, and the nation's poorest people. Further, much of the arbitration policy and jurisdictional issues have been left to the 63 provinces which have created cumbersome legal overlaps. This impediment alone has left Vietnam with one of the lowest rankings in the world for ease of starting a business. Corruption and lack of transparency persist throughout this country's bureaucracy as it moves slowly through the process of privatizing thousands of SOE's. Liberalization is not instant, import rights have been granted for all products except products which are reserved for state trading firms – the state reserves the right to ban or regulate products it deems to be culturally untenable. These products can include "cigars/cigarettes, crude oil, newspapers, periodicals, and recorded media."[xvii] The GVN's internal struggle between economic growth and the nation's conservative identify is palpable. We will now discuss some of the specific areas through which Vietnam is opening its economy to the rest of the world.

In 2005, the Intellectual Property Law attempted to modernize Vietnam's legal framework. The associated statues broadened the scope of intellectual property protected under the law.[xviii] The US, in 2008, issued further concerns about Vietnam's protection of intellectual property. One remaining difficulty lay in trademark infringement which is wide spread and difficult to enforce. Copyright infringement has however been receiving better protection from Vietnamese authorities. The US State department indicates: "most often, authorities use administrative actions such as warnings and fines to enforce IPR protection because they have limited resources for enforcement."[xix] Although, enforcement has been strengthened considerably since 2008 when criminal penalties for infringement were circulated, Vietnam still has one of the highest rates of piracy in the world for software, music and movies. [xx] Civil cases for trademark and copyright infringement are becoming more common and substantial compensation is increasingly being awarded.

The "people of Vietnam" have ownership rights to the land. Neither nationals nor foreigners can personally own land. Firms may lease land from the government, as the Land Use Act (2003) outlines, on a 50 year contract, 70 years in some of the poorer regions. The contract is renewable. Companies therefore must apply for a land use license. Licenses are awarded by the central government or by the provincial government depending on the investor, the size of the investment, and the sector of business. This can be an extremely burdensome process because the GVN has decentralized authority to the provincial heads. Decentralization has led to "considerable regional differences" including distinct interpretations of investment laws.[xxi]

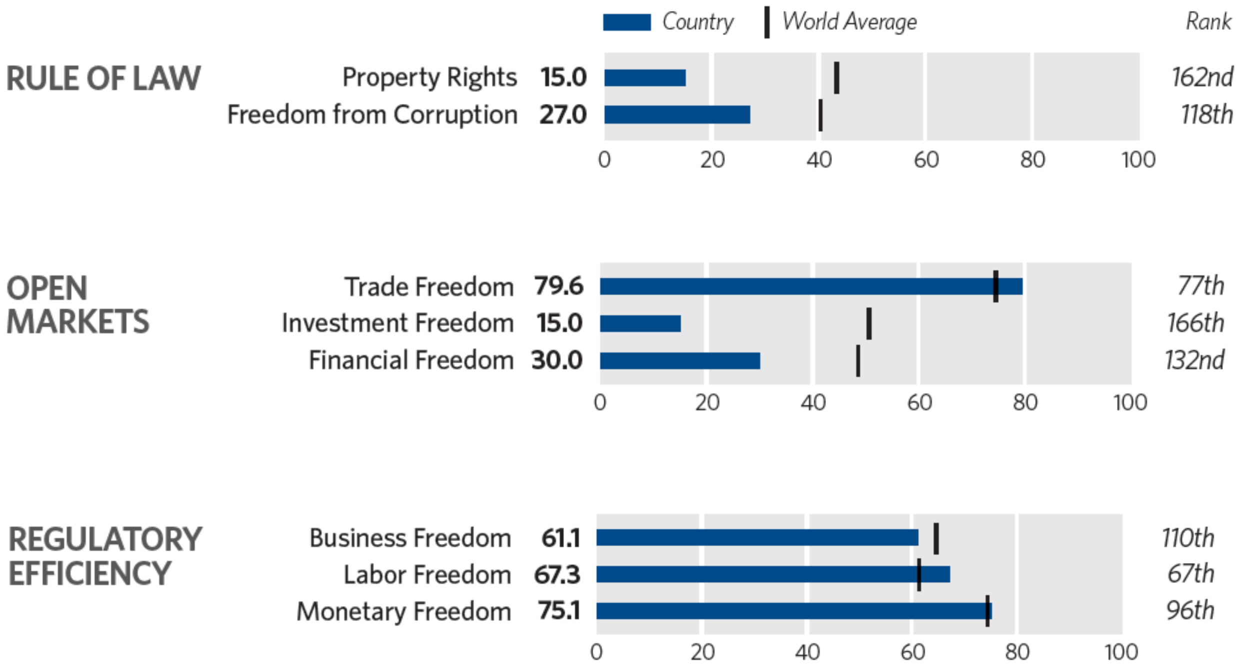
The tax code can be equally as messy; provinces are allowed to tax their jurisdictions how they see fit. Vietnam does not, however, tax incomes remitted by foreign-investors to their home countries. Once investors have fulfilled their local tax requirements they are free to move capital out of the country without penalty. This picture is over simplified because it does not consider informal payments, which pervade Vietnam's bureaucracy. In 2011 Transparency International Corruption Perceptions Index ranked Vietnam 112 out of 182 countries. (See Appendix C; also note appendix D – The Heritage Foundation's ranking of Economic Freedom). Lack of government transparency, accountability, and freedom of the press continue to be significant inhibitors. According to Vietnam's 2010 Provincial Competitiveness Index (PCI), which surveyed 1,155 foreign-invested firms about informal charges they made, 20% noted informal start-up fees, 40% paid fees to bid on contracts, and 70% attested to paying "grease" money for customs clearances.[xxii] Below (see figure 2) are three indexes comparing the strength of investment law in Vietnam with the region and with the globe:

Figure 2 - ***Investing Across Borders: Arbitrating Commercial Disputes. The World Bank Group.***

Indicators	Country score	IAB regional average	IAB global average
Strength of laws index (0-100)	84.9	83.8	85.2
Ease of process index (0-100)	61.8	66.1	70.6
Extent of judicial assistance index (0-100)	57.2	46.6	57.9

From these estimates, one can see that Vietnam's rule of law has gained traction against global averages. However, the GVN can still take significant steps to simplify the process of starting a business: licensing, taxing, and protecting intellectual property. A less optimistic opinion from the Heritage Foundation (figure 3) states that the judicial system lacks efficiency and independence. Further it points out that judicial resolution can take years.

Figure 3 – Doing Business.org – The World Bank



The Heritage Foundation's ranking reflects the convoluted state of the judicial system and weak protection of intellectual property. Starting a business takes more time the world average. And the licensing requirements are costly and arduous. While tariffs have fallen in compliance with the WTO, non-tariff barriers impede free trade. Trends in investment freedom (figure 4) reveal that Vietnam is currently in a period of repressing freedoms, while trade freedoms (figure 5) have increased considerably relative to the rest of the world. In figures 4 and 5, Vietnam is represented in the red, compared to the black world average:

Figure 4 - Investment Freedom - The Heritage Foundation

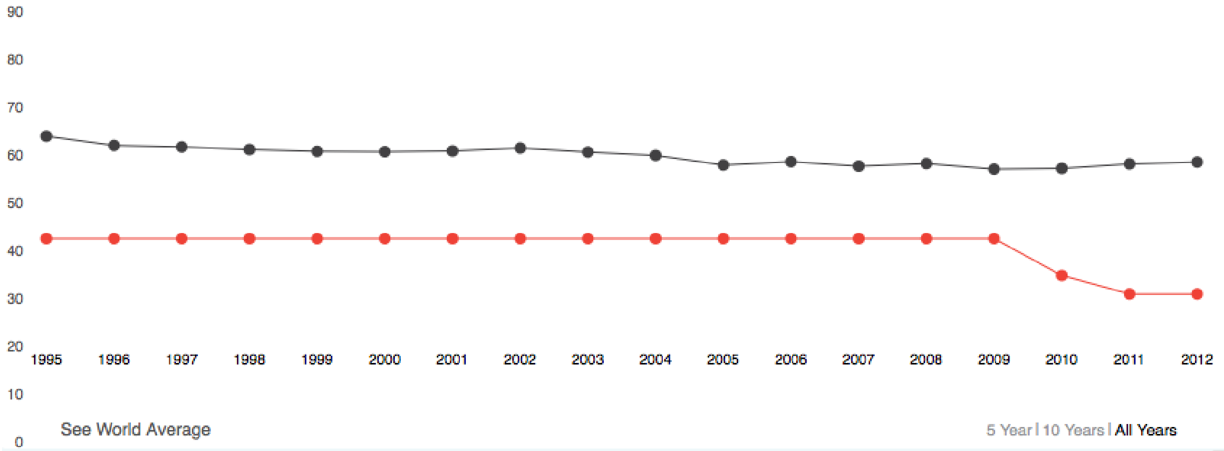
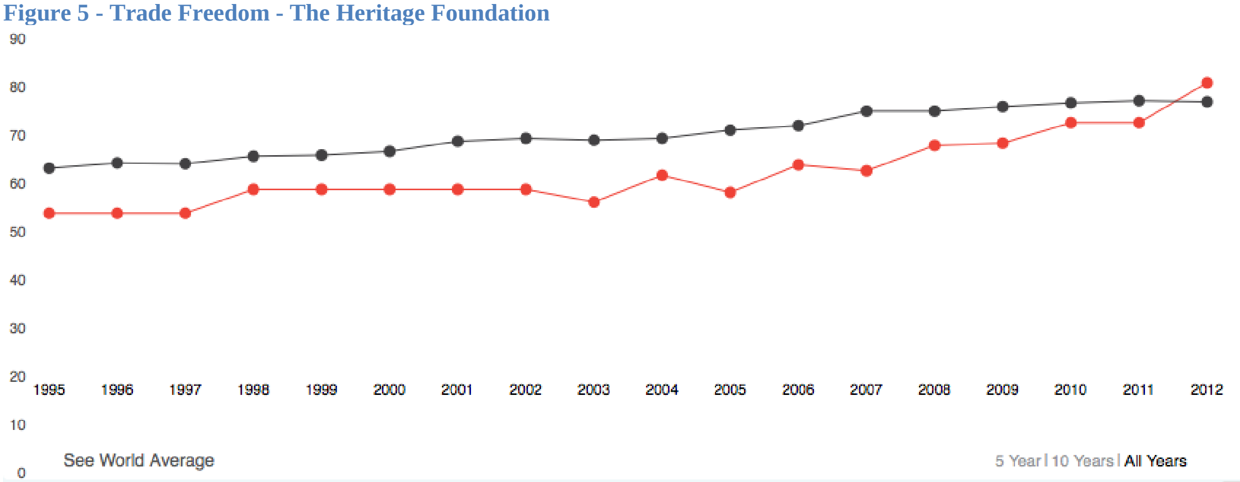


Figure 5 - Trade Freedom - The Heritage Foundation



Some of the specific indicators which make up the Heritage Foundations ranking are found in the The World Bank's *Doing Business*.[xxiii]

Vietnam requires the regional average of six documents to export materials. The process takes twenty-two days to complete; again Vietnam matches its peer group. The cost of exporting was found to be almost half the regional average, $580 per container versus $906. Vietnam shows similar statistics on the import side.[xxiv] This was not always the case. Significant trade delays existed before entry into the WTO. Vietnam drastically outperforms its regional peers in "ease of enforcing contracts". While this seems contradictory to Heritage's analysis we can see that the region as a whole has an infamously weak judicial system. The “years” it can take to resolve judicial disputes, referred to in the Heritage Foundation’s analysis, is refuted by the World Bank which states that judicial review and contract enforcement take less than a year at 295 days. The regional average is 519 days. (In order to see how Vietnam ranks relative to its region please see: Appendix E, investor protection index, and Appendix F, ease of shareholder suits. We will now turn in greater detail to the sectors open to foreign investment.

The GVN distinguishes between four categories of sectors; “prohibited, encouraged, conditional sectors applicable to both foreign and domestic investors, and conditional sectors applicable to foreign investors.”[xxv] 18 of the 33 major sectors in Vietnam are open to foreign equity. Among the sectors open to foreign investment is banking and financial services. The GVN currently allows 99% of its banking center to be wholly owned by foreign investors.[xxvi] Vietnam holds restrictions on foreign ownership in services including telecommunications, electricity and transportation. The GVN allows up to 49%, in accordance with the WTO provision, of the telecommunications industry to be foreign owned.[xxvii] This is also the case with air transportation. Because of the GVN’s strong paternalistic influence, no private investment may be made in media sectors, including television broadcasting and newspaper publishing. The government intends to keep the press under its watchful gaze. It is mandated that one-third of movies aired in Vietnam are produced domestically. (For a complete list of industry restrictions see Appendix B.)

These restrictions apply to foreign, privately owned, multinational enterprises. These restrictions are not hindrances to attracting FDI. Other hindrances include “market size, infrastructure quality, political stability and growth potential.”[xxviii] The following indices (figure 6) reflect these persistent concerns:

Figure 6 - State.gov *2012 Investment Climate Statement*[xxix]

Index	2011 Rank	2010 Rank	Change in rank
TI Corruption Perceptions Index	112	116	+4
Heritage Index of Economic Freedom:	139	144	+5
Index	**2012 rank**	**2011 rank**	**Change in rank**
World Bank's Ease of Doing Business	98	90	-8
Starting a Business	103	100	-3
Dealing with Construction Permits	67	70	+3
Registering Property	47	43	-4
Getting Credit	24	21	-3
Protecting Investors	166	172	+6
Paying Taxes	151	129	-22
Trading Across Borders	68	65	-3
Enforcing Contracts	30	31	+1
Closing a Business	142	130	-12

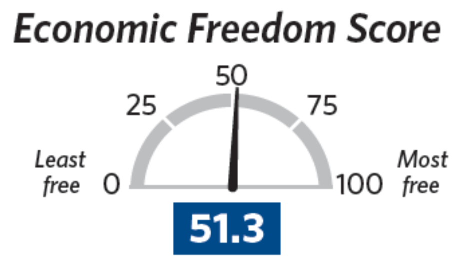
The above rankings illustrate a complex country which is often trying to synthesize a prosperous future with a paternalistic past. The GVN is working to open industries to market forces but at a pace deemed appropriate to those whom they govern. Moreover, the financial sector bears similar markings of hesitant privatization.

Vietnam is in the early stages of reforming its financial system which remains unstable and weak for many reasons. GVN's slow and inadequate adoption of international accounting standards plays a major role in keeping potential investors cautious. The banking sector is underdeveloped: highly concentrated at the top with four state-owned or majority state owned banks, and a "fragmented" scramble of small lending institutions at the bottom.[xxx] A combination of state directed lending, and low rates of accessibility to banking services, 25% of Vietnamese nationals currently have a bank account,[xxxi] leaves the banking sector with low liquidity. GVN is going through the process of privatization of its banking sector which will most likely increase the stability of the sector, though it will take time. State ownership in former SOE's has reduced dramatically over the past decade; yet it is persistent in the banking sector.[xxxii]

To conclude, Vietnam's leaders desire to take the country in a direction of global trade. They understand the close relationship between global competitiveness and increasing the living standards for their people. Internal legal reforms in addition to meeting WTO standards have brought about Vietnam's increased GNI per capita. The WTO provisions in particular have increased transparency of public companies, required commitment to reduce trade barriers, and set new precedent to protect and enforce intellectual property rights. While bureaucratic corruption remains to be a significant issue, and a financial burden on foreign investment dollars, evidence suggests that reforms are having a positive effect. Licensing processes are becoming more "western" allotting firms the same rights to use the land as firms in the west which actually own the land. Finally a majority of industrial sectors in Vietnam are open to foreign equity with pressure mounting on lingering restrictions. The environment in Vietnam is changing, somewhat resentfully, as the government marries a socialist rhetoric with a market oriented structure.

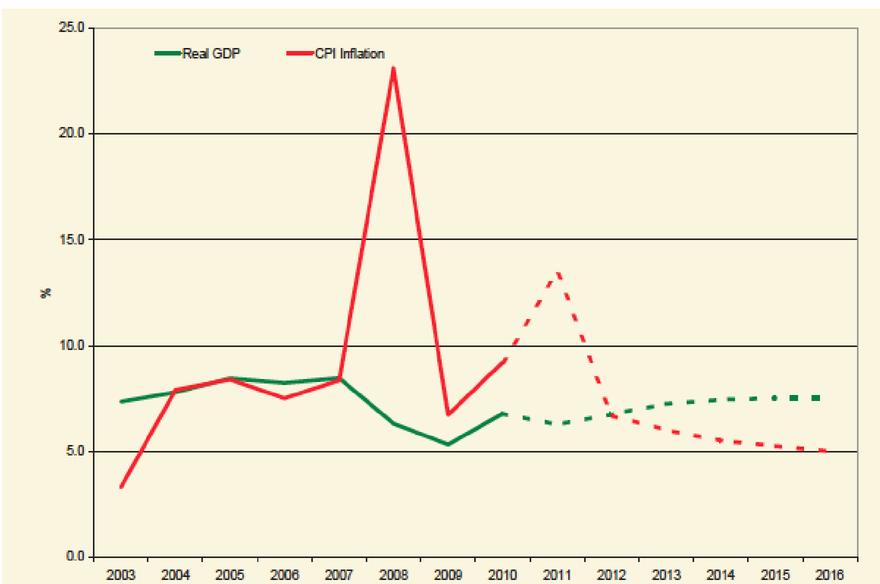
Part Two: Economic Risk in Vietnam

Figure 7 – The Heritage Foundation



Much of what has been noted as a threat to potential investment in Vietnam also poses an economic threat to the nation. The struggle between decaying ideals of a centralized economy and liberal ideals of a mixed market economy create a contradictory, almost stagnate, system of economic policies. This is symbolized by the Heritage Foundation's ranking of Vietnam's economic freedom (figure 7): 51.3, right in the center. (See appendix D for Vietnam's 2012 Economic Freedom score). A central government too willing to interfere with market forces, a corrupt bureaucracy, and a weak judicial system inhibit economic growth.[xxxiii]

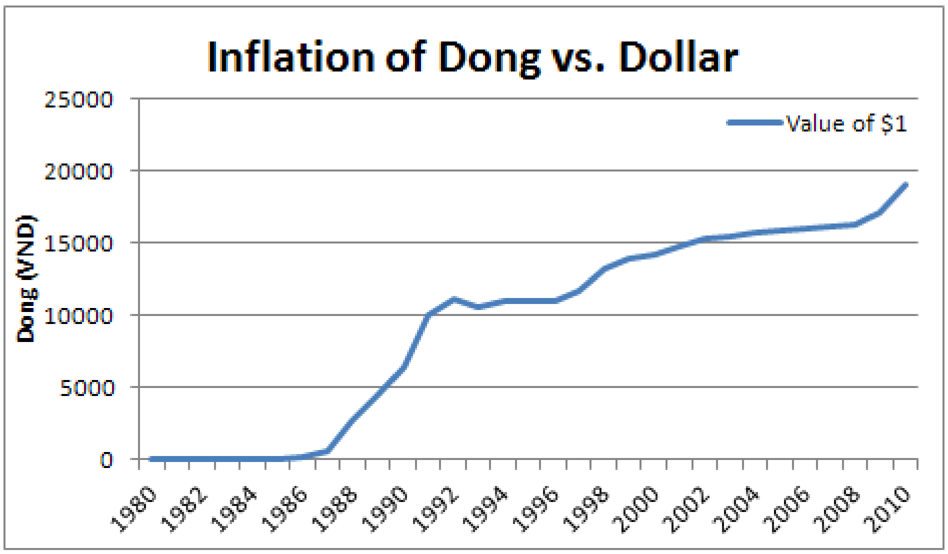
Figure 8 – Real GDP v CPI Inflation in Vietnam



Other economic risks include a volatile inflation rate, which rose rapidly during the financial crisis of 2008 when it reached rates in excess of 25%.[xxxiv] Subsequently, in 2009, inflation fell to 7% only to rise to double digits in 2011 (see figure 8). Such volatility makes it very hard to sustain growth and predict returns in the future. GDP Growth simply cannot keep pace with the speed at which inflation rises and falls in Vietnam. The issue in Vietnam has been caused by both cost-push inflation and demand-pull inflation. Cost-push inflation occurs when the cost of goods has increased and there is no suitable substitute. Vietnam's burgeoning economy often finds that it needs expensive fixed capital from abroad because there is no domestic alternative. Demand-pull inflation is occurring because demand in Vietnam is outpacing domestic supply. (See figure 9 for the inflation of the Dong against the dollar)

The GVN is working to stabilize the inflation rate by tightening monetary and fiscal policy. Meaning, the GVN aims to drastically reduce its direct-lending and thereby reduce the supply of money. The current growth model: one based on an influx of capital and labor intensive production is being replaced by a model which depends on more effective investment and continuing to remove restrictions and barriers to international trade. David Dapice, an economist with the Vietnam Program at Harvard University's John F. Kennedy School of Government, noted: "[GVN's] macroeconomic management is not coordinated or is trying to do too much, while many investments are made with more of political considerations than with a concern for efficiency."[xxxv] The primary purpose of Government Resolution 11 (2011) is to stabilize inflation of the Vietnamese dong.[xxxvi] While GDP growth has been promising 7% in 2010, 6% in 2011, [xxxvii] the value of this growth has been largely undermined by the volatile inflation rate. The GVN needs to better manage

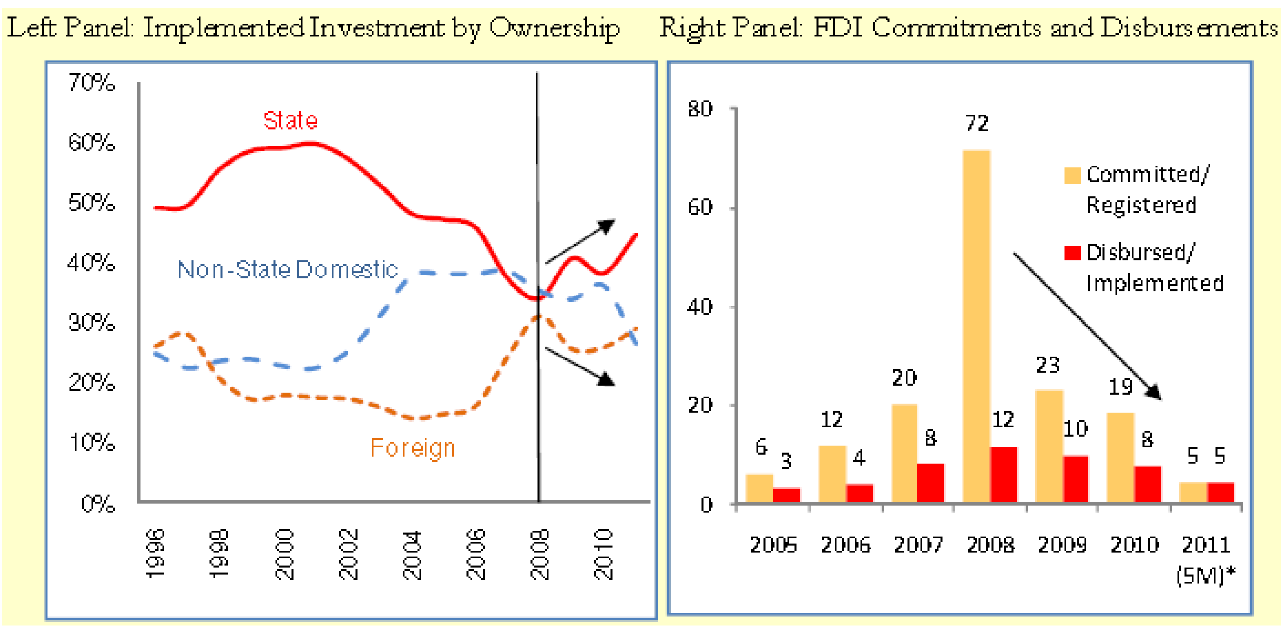
Figure 7 - UNCTADstat, Exchange rates, annual, 1980-2010



inflation in order to bring about the stability and predictability that investors depend on. Looking into the near future, the April 2012 World Economic ooutput, produced by the IMF, forcasts an inflation rate of about 12% in 2012 which, the report suggests, will drop off to below 8% in 2013.[xxxviii] The report indicates that rate will stay high because of strong demand.

The investment needed to sustain economic development is not materializing, largely due to the global financial crisis. Also of concern is the decline in domestic private investment (non-state). The arduous shift from state domestic investment to private and foreign investment is shown in figure 10 below.

Figure 8 – Investment Public vs. Private - Taking Stock - The World Bank[xxxix]



The left panel shows the weaning process off state funds and the irregular development of domestic investments as well as the foreign dollars coming into the country. As a result of the global financial hiccup in 2008, non-state funds sharply declined and required public investment to close the gap. The chart shows that the GVN has not begun to decrease its presence in the market to 2008 levels. The decline in private domestic investment dollars it not a positive sign for a country with aspirations to become a middle income economy. While foreign investment has begun to rebound it still remains beneath 2008 levels. Further, Vietnam is experiencing a more significant decline in FDI from developed economies than expected. $4.7 billion in FDI was committed by the US in the first five months of 2011 compared to $9 billion over the same period in 2010.[xl] Given the slow disbursement rate (figure 10, right panel) this will have a delayed effect on the economy. The overall decrease in commitment reflects the extent to which the global recession has affected FDI. That being said, external capital flows have been sustained largely due to recovery and expansion of portfolio investment in Vietnam.[xli]

The shift in investment capital from state spending to private and foreign spending reiterates the pressure on the GVN to promote FDI. As shown in the figure 11 below, the European Union has historically led the world in capital investments in Vietnam. European firms are perhaps best suited to fill the investment gap when the GVN returns to 2008 spending levels. The GVN has every incentive to do so once they consider the rising living standards of their people.

Figure 9 – Source Countries of FDI, 1988 – 2006 – UNCTAD.org

(Number of projects, percentage of total and million dollars)

Home economy	Number of projects	Share of total number of projects (per cent)	Registered capital (million dollars)	Share of total registered capital (per cent)
European Union	727	8.8	10 935	14.0
Singapore	543	6.6	10 003	12.8
Taiwan Province of China [1]	1743	21.2	9502	12.1
Republic of Korea	1438	17.5	9252	11.8
Japan	838	10.2	8398	10.7
China (including Hong Kong, China)	1056	12.8	7643	9.8
(Hong Kong, China)	*(548)*	*(6.7)*	*(6400)*	*(8.2)*
ASEAN (excl. Singapore)	540	6.6	4397	5.6
United States and Canada	459	5.6	3630	4.6
Other	893	10.8	14 385	18.4
TOTAL	8237	100.0	78 248	100.0

[1] FDI from Taiwan Province of China may also be greater than reported. In 2004, over half of the investments originating in the British Virgin Islands were Taiwanese.

From a social development point of view, Vietnam has seen a gradual increase over time in human development. The Human Development Index (HDI) assesses for: length and quality of life, access to education and knowledge, and access to a "decent" standard of living, which is measured by the gross national income per capita.[xlii] (See appendix G for latest HDI Index.) Vietnam's ranking in 2011 is 0.593; it is ranked 128th out of 187 countries.[xliii] Over the past twenty years it has improved, on average, 1.5% per year. This gradual increase can be attributed to a modest increase in mean years of schooling. The increase is also a result of the significant increase in GNI per capita 228% over the twenty year period and the 19.5 years of added life expectancy.

Figure 10 - International Human Development Indicators (2011)

Table B: Viet Nam's HDI indicators for 2011 relative to selected countries and groups

	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US$)
Viet Nam	0.593	128	75.2	10.4	5.5	2,805
Thailand	0.682	103	74.1	12.3	6.6	7,694
Philippines	0.644	112	68.7	11.9	8.9	3,478
East Asia and the Pacific	0.671	—	72.4	11.7	7.2	6,466
Medium HDI	0.630	—	69.7	11.2	6.3	5,276

The improvements made to the living standard in Vietnam will continue to attract more investment. The economy's domestic consumption will increase as well as its productivity per labor hand.

Part Three: Trade with the EU

International trade in Vietnam has fully recovered and surpassed its pre crisis levels. The trade to GDP ratio is currently 160 percent.[xliv] Figure 13 below shows growth in exports to all ten of Vietnam's top trading partners. The fear that Vietnam's economy would suffer severe shock from financial crisis has passed. 2009 marked the worst year on record, though Vietnam's exporters made significant progress in 2010 by increasing non-oil exports by 36.9 percent.[xlv] Apart from increasing global food prices, which has significantly increased Vietnam's exports, foreign investment as well as trade agreements have made the export sector resilient to shocks. Foreign owned manufacturing firms reported remarkable growth in 2010. The garment industry grew by 24 percent; the footwear industry grew by 26 percent; the electronics industry boasted 30 percent growth in 2010.[xlvi]

Figure 13 - Top 10 Export Partners in 2011 – USD (million) – The World Data Bank

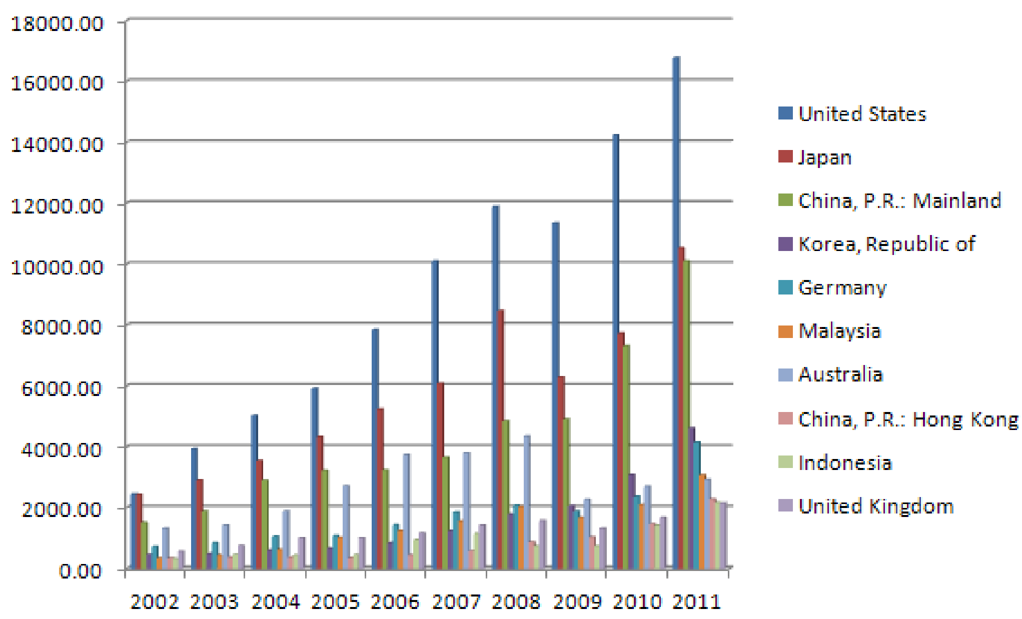
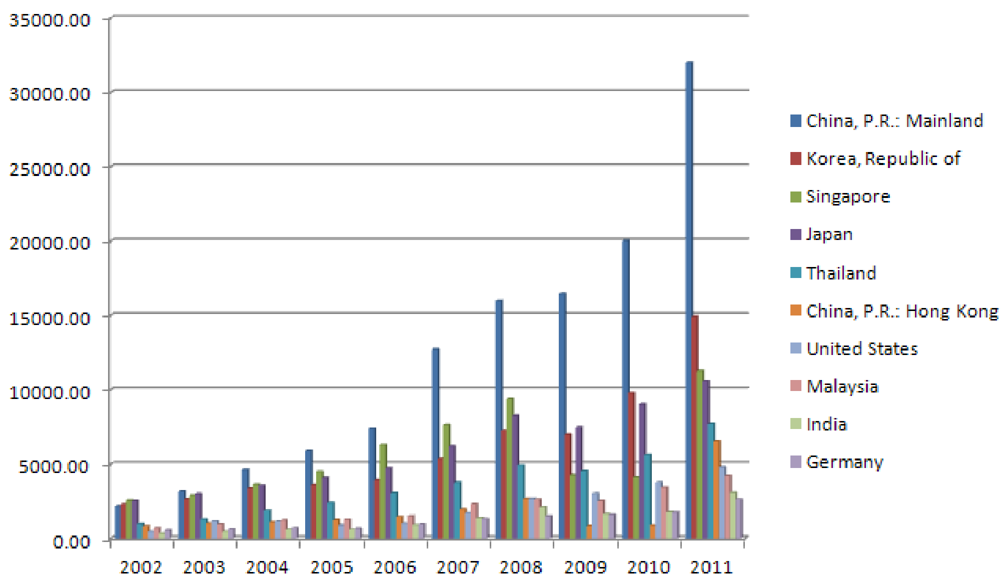
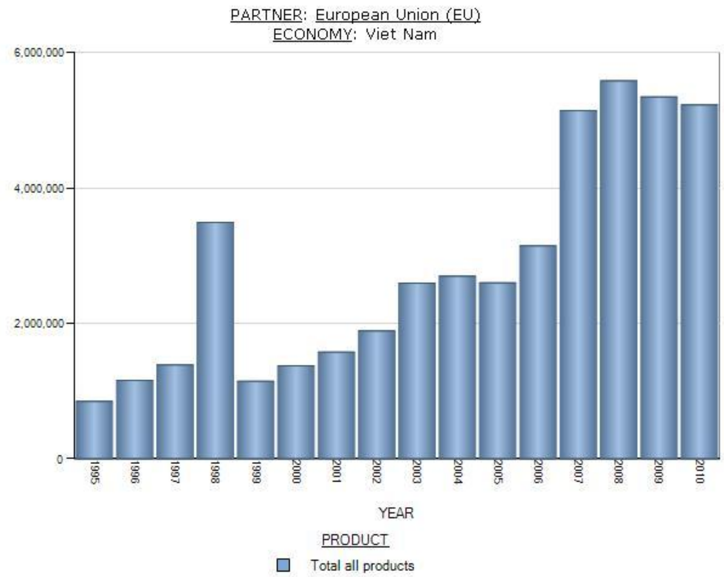


Figure 14 – Top 10 Import Partners in 2011 – USD (millions) – World Data Bank



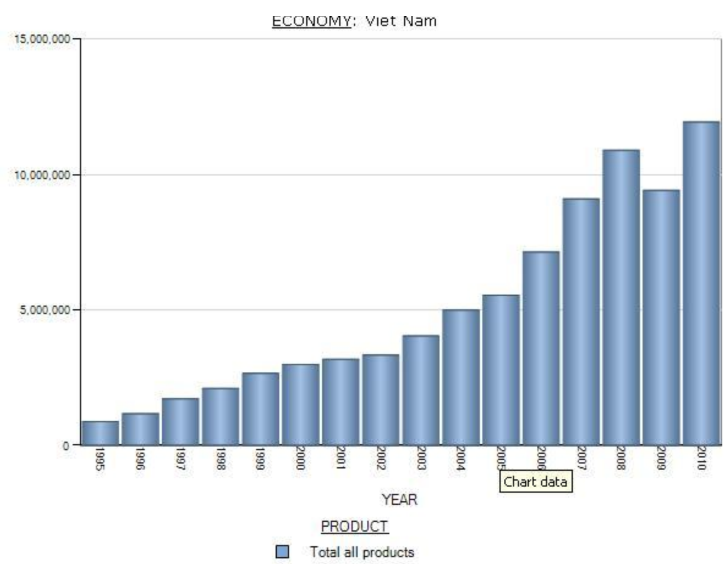
Higher prices have also meant a higher national import bill. Vietnam imported $2.2 billion more in the first four months of 2011 than in 2010.[xlvii] East Asian countries remain by far the most important sources of imports. More significant trading partners, partners with whom Vietnam depends on to source its growing demand include China, South Korea and Japan. However, the EU represents the 2nd largest importer of Vietnamese goods, after the US. (See charts 13 and 14 for majors trading partners as well as Appendix H to view the make-up of Vietnamese imports to the EU as well as EU exports to Vietnam). Agricultural products and various manufacturing industries, from office equipment to clothing, comprise the bulk of goods which Vietnam currently exports to the EU. In return the EU sells transport equipment and other machinery back to Vietnam.

Figure 15 – Imports from the EU 1995-2010 – The World Data Bank



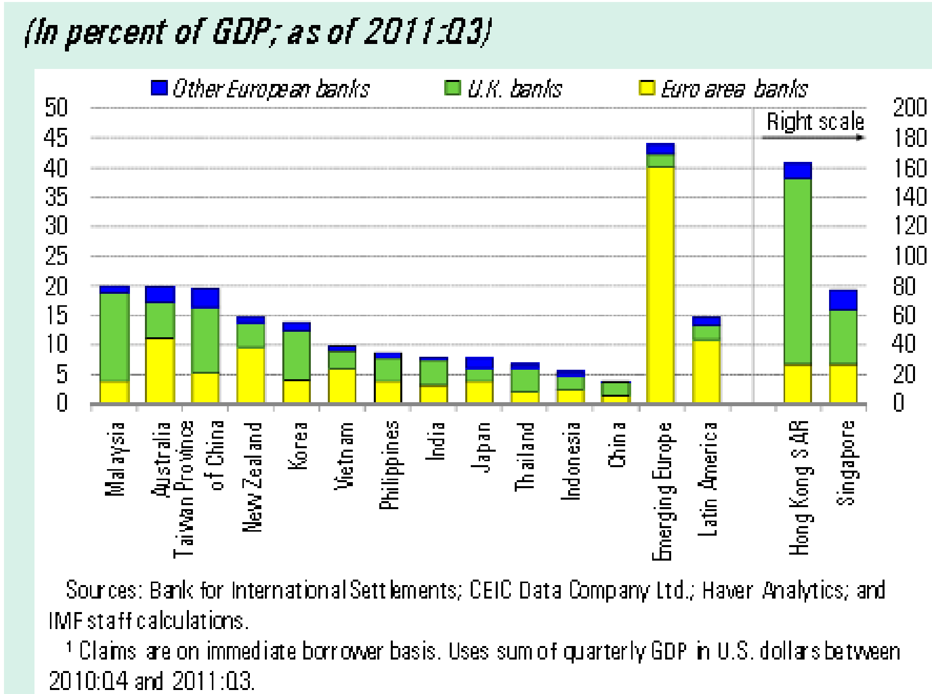
The balance of trade between Vietnam and the European Union is favorable to the Vietnamese. Vietnam has significantly increased its exports to the EU of the past five years. Since 2007 Vietnam has earned, on average, 5.2 million Euro per year. In 2011, the balance was 7.5 million euro, representing 16.7% of Vietnam's total export sector. [xlviii] This implies that the effects of the global recession have worn off. However, this is still less than one percent of total imports into the EU signifying that there is room for further growth into the European market.[xlix] European firms have the most to gain from growth. Figure 15 and 16 represent the import and exports to the EU over the last 15 years. The data shows a relationship of increasing importance between the EU and Vietnam.

Figure 16– Exports to the EU 1995-2010 – The World Data Bank



European banks already have a significant presence in Vietnam: the highest among its peers after Malaysia (see figure 17 on following page). Vietnam's exposure to European banks was 10% of its GDP. Although the presence of European banks in Vietnam has decreased compared to the previous quarter,[l] an influx of European investments would certainly pave the way for the European banking sector to increase their interest in Vietnams financial sector. [li] Further, European firms will find that they are able to solicit financing from their native institutions.

Figure 17 – Consolidated Foreign Claims of European Banks on Asia[1]



Conclusion:

Vietnam sits precariously waiting for the future. In the wake of the global financial crisis, foreign FDI has rescinded. While the GVN rushed in to avoid a more severe crisis and a resulting economic downture, they are committed to increasing the private domestic and foreign direct investment in their country. Despite a long global recession the export sector has recovered fully and the GVN is working to continue to privatize state run industries. Vietnam has weathered the financial crisis well, though foreign investment dollars will be needed to fill the gap created by low private domestic investment. Further, investor confidence is likely to continue to rise with loosening barriers and increasing living standards as indicated by the growth in HDI and GNI per capita. European firms have much to gain from further investment in Vietnam, the groundwork has been laid by previous investment and a strong bank presence, and the trade relationship is only becoming more important. The European Union would do well to capitalize on the opportunity to invest in Vietnam.

Appendix A

POVERTY and SOCIAL	**Vietnam**	**East Asia & Pacific**	**Lower-middle-income**
2010			
Population, mid-year *(millions)*	86.9	1,962	2,519
GNI per capita *(Atlas method, US$)*	1,160	3,696	1,619
GNI *(Atlas method, US$ billions)*	101.1	7,249	4,078
Average annual growth, 2004-10			
Population *(%)*	1.1	0.7	1.6
Labor force *(%)*	2.0	1.1	1.4
Most recent estimate (latest year available, 2004-10)			
Poverty *(% of population below national poverty line)*	15	..	..
Urban population *(% of total population)*	29	46	39
Life expectancy at birth *(years)*	75	72	65
Infant mortality *(per 1,000 live births)*	19	20	50
Child malnutrition *(% of children under 5)*	20	6	25
Access to an improved water source *(% of population)*	95	90	87
Literacy *(% of population age 15+)*	93	94	71
Gross primary enrollment *(% of school-age population)*	106	111	107
Male	109	111	110
Female	103	112	104

KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1990	**2000**	**2009**	**2010**
GDP *(US$ billions)*	6.5	31.2	97.2	106.4
Gross capital formation/GDP	12.6	29.6	38.1	38.9
Exports of goods and services/GDP	36.0	55.0	68.3	77.5
Gross domestic savings/GDP	3.3	27.1	27.8	28.6
Gross national savings/GDP	..	31.3	29.7	31.9
Current account balance/GDP	-5.4	3.6	-6.3	-3.8
Interest payments/GDP	1.1	1.1	0.4	0.5
Total debt/GDP	359.6	41.1	29.6	33.0
Total debt service/exports	8.9	7.5	1.9	1.9
Present value of debt/GDP	..	..	..	25.0
Present value of debt/exports	..	..	..	36.4

	1990-00	**2000-10**	**2009**	**2010**	**2010-14**
(average annual growth)					
GDP	7.9	7.5	5.3	6.8	6.5
GDP per capita	6.2	6.3	4.2	5.7	5.5
Exports of goods and services	19.2	11.2	11.1	14.7	13.3

Appendix A (continued)

STRUCTURE of the ECONOMY

	1990	2000	2009	2010
(% of GDP)				
Agriculture	38.7	24.5	20.9	20.6
Industry	22.7	36.7	40.2	41.1
Manufacturing	12.3	18.6	20.1	19.7
Services	38.6	38.7	38.8	38.3
Household final consumption expenditure	84.3	66.4	65.9	64.9
General gov't final consumption expenditure	12.3	6.4	6.3	6.5
Imports of goods and services	45.3	57.5	78.7	87.8

	1990-00	2000-10	2009	2010
(average annual growth)				
Agriculture	4.3	3.7	1.8	2.8
Industry	11.9	9.3	5.5	7.7
Manufacturing	11.2	10.9	2.8	8.4
Services	7.5	7.5	6.6	7.5
Household final consumption expenditure	5.1	7.7	1.7	5.3
General gov't final consumption expenditure	3.2	7.9	7.6	12.3
Gross capital formation	19.8	12.0	4.3	10.4
Imports of goods and services	19.5	13.2	6.7	14.1

PRICES and GOVERNMENT FINANCE

	1990	2000	2009	2010
Domestic prices				
(% change)				
Consumer prices	36.4	-1.6	6.7	9.2
Implicit GDP deflator	42.1	3.4	6.0	11.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	14.7	20.4	24.5	26.2
Current budget balance	-0.7	4.5	3.6	5.0
Overall surplus/deficit	-5.8	-2.0	-9.0	-6.5

TRADE

	1990	2000	2009	2010
(US$ millions)				
Total exports (fob)	2,404	14,483	57,096	72,191
Rice	272	667	2,664	3,248
Fuel	390	3,503	6,195	4,958
Manufactures	..	6,397	32,116	42,199
Total imports (cif)	2,752	15,637	69,949	84,801
Food	86	0	10	28
Fuel and energy	356	2,058	6,255	5,742
Capital goods	561	4,781	23,934	25,278
Export price index *(2000=100)*	..	100	165	183
Import price index *(2000=100)*	..	100	137	144
Terms of trade *(2000=100)*	..	100	121	127

BALANCE of PAYMENTS

(US$ millions)	1990	2000	2009	2010
Exports of goods and services	1,913	17,151	62,752	79,651
Imports of goods and services	1,901	17,324	72,289	87,599
Resource balance	12	-173	-9,537	-7,948
Net income	-412	-451	-3,026	-4,630
Net current transfers	49	1,732	6,450	8,579
Current account balance	-351	1,108	-6,113	-3,999
Financing items (net)	..	-993	-2,053	180
Changes in net reserves	..	-115	8,166	3,819
Memo:				
Reserves including gold *(US$ millions)*	..	3,030	..	..
Conversion rate *(DEC, local/US$)*	6,482.8	14,167.8	17,065.1	18,612.9

EXTERNAL DEBT and RESOURCE FLOWS

(US$ millions)	1990	2000	2009	2010
Total debt outstanding and disbursed	23,270	12,822	28,718	35,139
IBRD	0	0	0	700
IDA	59	1,113	6,270	7,010
Total debt service	174	1,309	1,217	1,372
IBRD	0	0	0	5
IDA	1	9	87	99
Composition of net resource flows				
Official grants	96	236	646	656
Official creditors	-86	1,041	3,112	2,513
Private creditors	0	-707	36	1,110
Foreign direct investment (net inflows)	180	1,298	7,600	8,000
Portfolio equity (net inflows)	0	0	128	2,383
World Bank program				
Commitments	0	286	2,004	1,264
Disbursements	0	174	1,206	1,553
Principal repayments	1	2	47	52
Net flows	-1	173	1,159	1,501
Interest payments	0	7	40	52
Net transfers	-1	165	1,119	1,449

Source: World Data Bank – *Vietnam at a Glance* - devdata.worldbank.org/AAG/vnm_aag.pdf

Appendix B

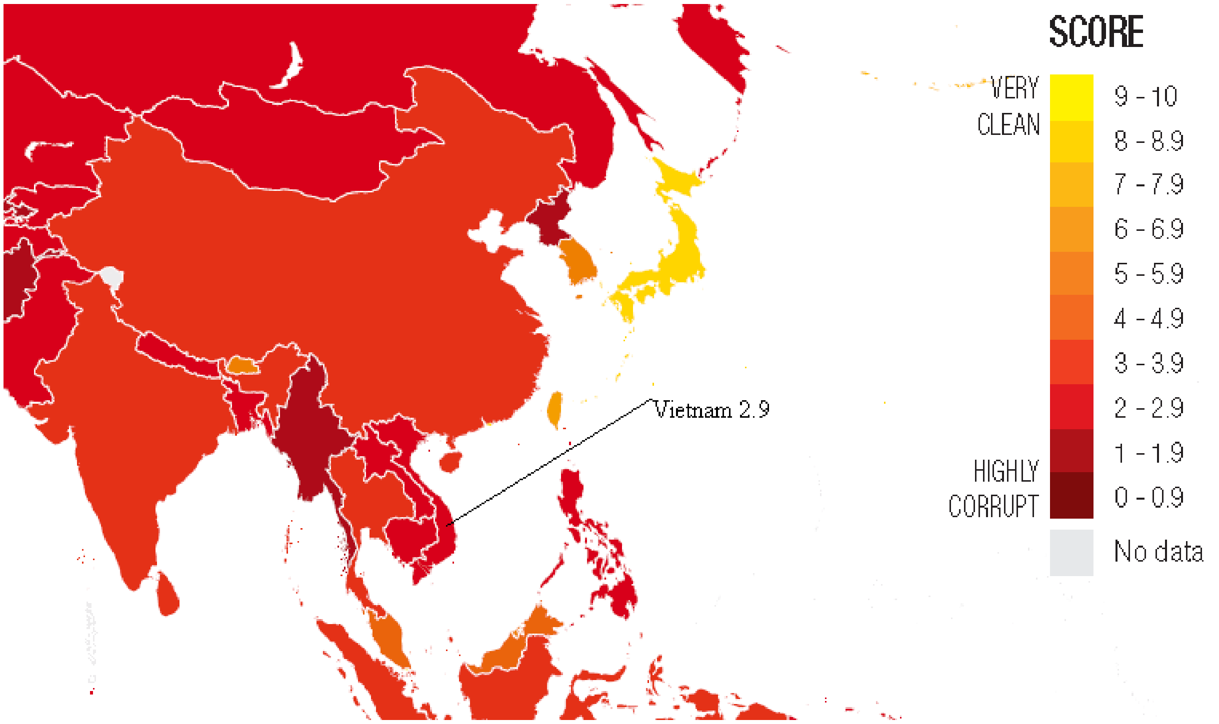
Methodology of the foreign equity ownership indexes

		Maximum foreign ownership allowed by law or policy (%)		Comparison: Indonesia
Sector group	**Sector**	**In greenfield FDI**	**In mergers and acquisitions**	**Foreign equity ownership indexes**
Mining, oil and gas	Mining	100	100	97.5
	Oil and gas	95	95	
Agriculture and forestry	Agriculture	95	95	72.0
	Forestry	49	49	
Light manufacturing	Light manufacturing	100	100	68.8
	Manufacturing of food products	100	100	
	Pharmaceutical products	75	75	
	Publishing	0	0	
Telecommunications	Fixed-line infrastructure	49	49	57.0
	Fixed-line telephony services	49	49	
	Wireless/mobile infrastructure	65	65	
	Wireless/mobile services	65	65	
Electricity	Electric power generation – coal, hydro, biomass, solar, wind	95	95	95
	Electric power transmission	95	95	
	Electric power distribution	95	95	
Banking	Banking	99	99	99.0
Insurance	Insurance	80	80	80.0
Transportation	Railway freight, Domestic air, International air, Airport operation, Port operation	49	49	49.0
Media	Television broadcasting	0	20	5.0
	Newspaper	0	0	
Sector group 1: Construction, tourism, and retail	Construction	55	55	85.0
	Tourism	100	100	
	Retail distribution services	100	100	
Sector group 2: Health care and waste management	Health care	65	65	82.5
	Waste management and recycling	100	100	

Source: Investing Across Borders. *The World Bank Group.* Accessed August, 15 2012
http://iab.worldbank.org/Methodology/Investing-across-sectors

Appendix C

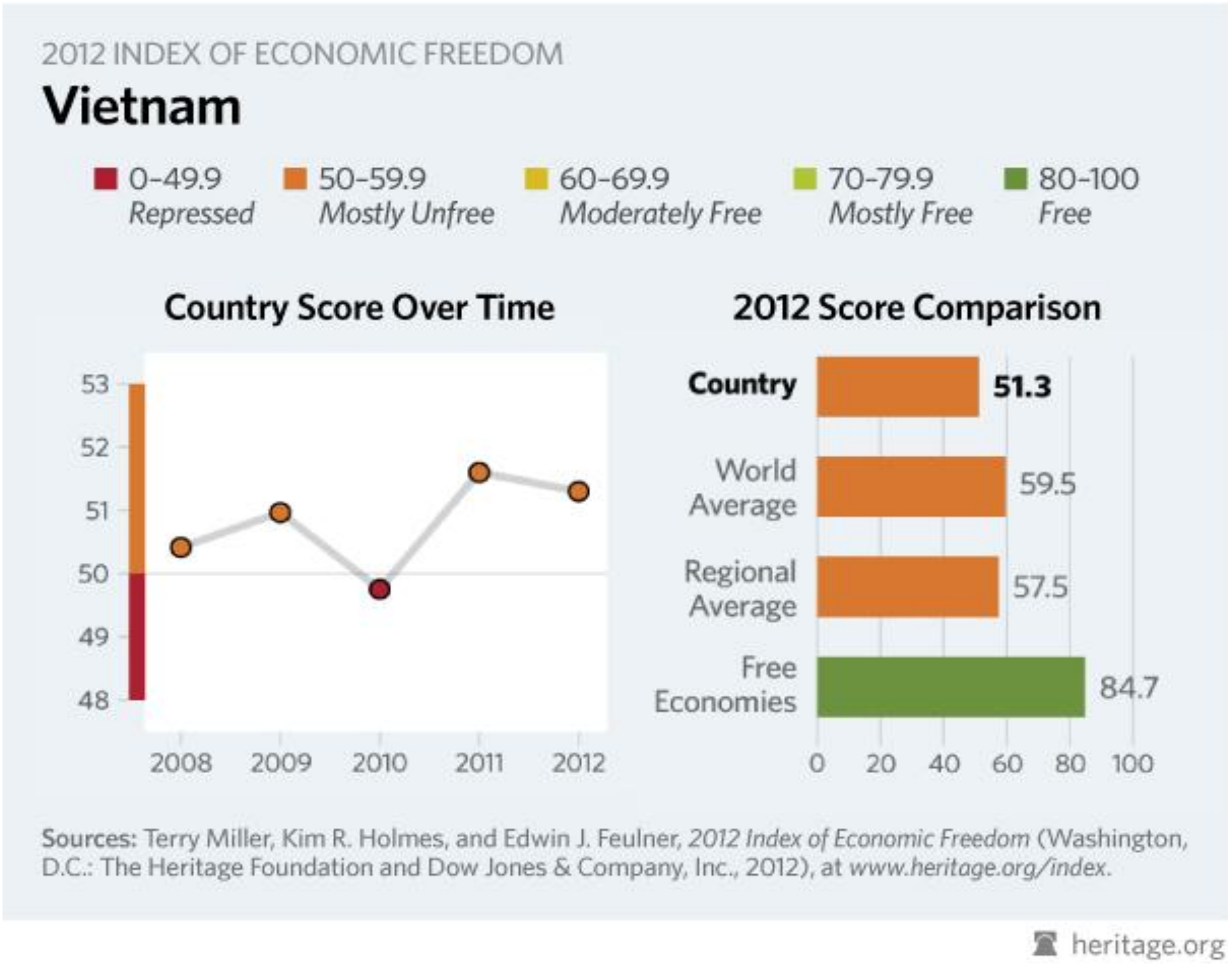
Transparency International Corruption Perceptions Index



RANK	COUNTRY	SCORE	REGION RANK	REGION	SOURCES	CONFIDENCE RANGE
100	Mexico	3	20	Americas	11	2.8 - 3.2
100	Sao Tome & Principe	3	14	Sub-Saharan Africa	3	2.7 - 3.3
100	Suriname	3	20	Americas	3	2.6 - 3.5
100	Tanzania	3	14	Sub-Saharan Africa	8	2.6 - 3.2
112	Algeria	2.9	11	Middle East & North A	7	2.6 - 3.1
112	Egypt	2.9	11	Middle East & North A	7	2.6 - 3.2
112	Kosovo	2.9	9	Eastern Europe & Cen	3	2.7 - 3
112	Moldova	2.9	9	Eastern Europe & Cen	8	2.7 - 3.1
112	Senegal	2.9	22	Sub-Saharan Africa	10	2.6 - 3.1
112	Vietnam	2.9	21	Asia Pacific	11	2.6 - 3.1

http://cpi.transparency.org/cpi2011/results/

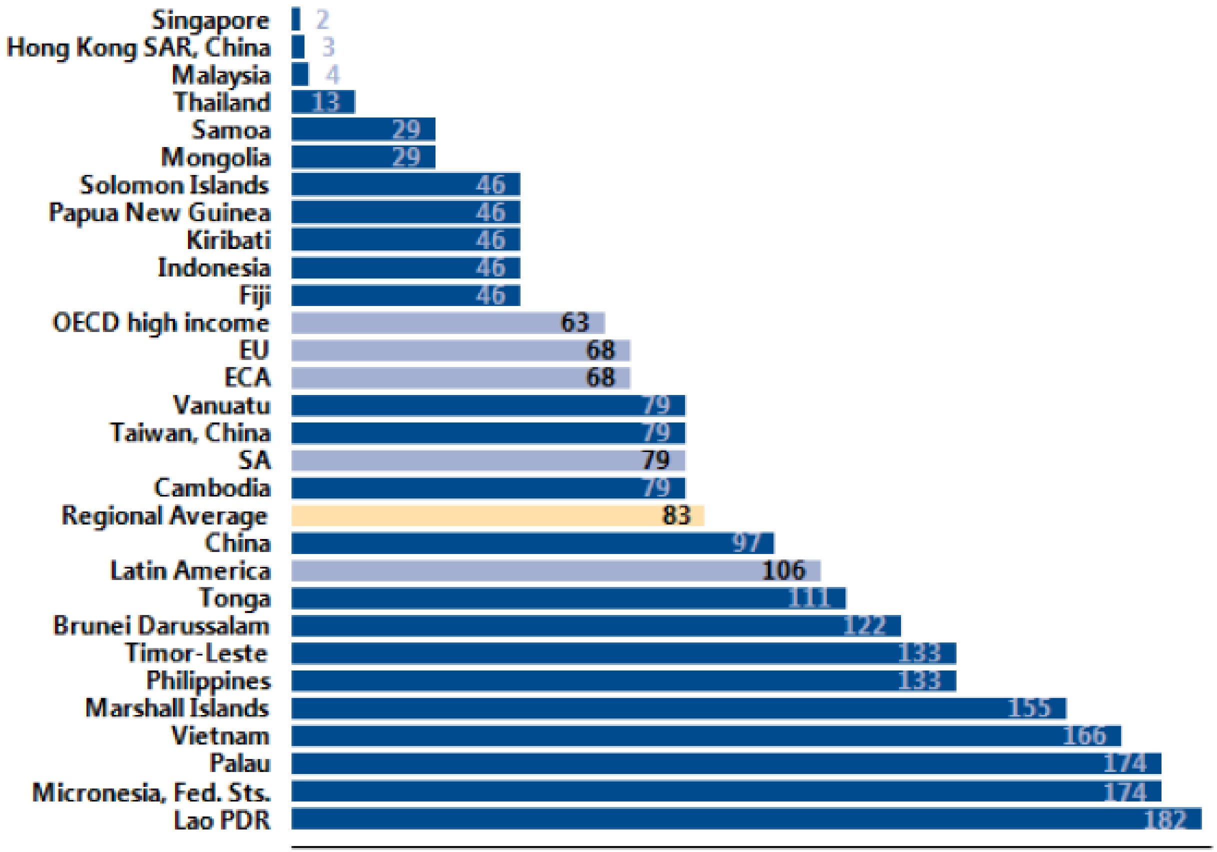
Appendix D



2012 INDEX OF ECONOMIC FREEDOM
Vietnam
0–49.9 Repressed
50–59.9 Mostly Unfree
60–69.9 Moderately Free
70–79.9 Mostly Free
80–100 Free
Country Score Over Time
53
52
51
50
49
48
2008
2009
2010
2011
2012
2012 Score Comparison
Country
51.3
World Average
59.5
Regional Average
57.5
Free Economies
84.7
0
20
40
60
80
100
Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, 2012 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at www.heritage.org/index.
heritage.org

Appendix E

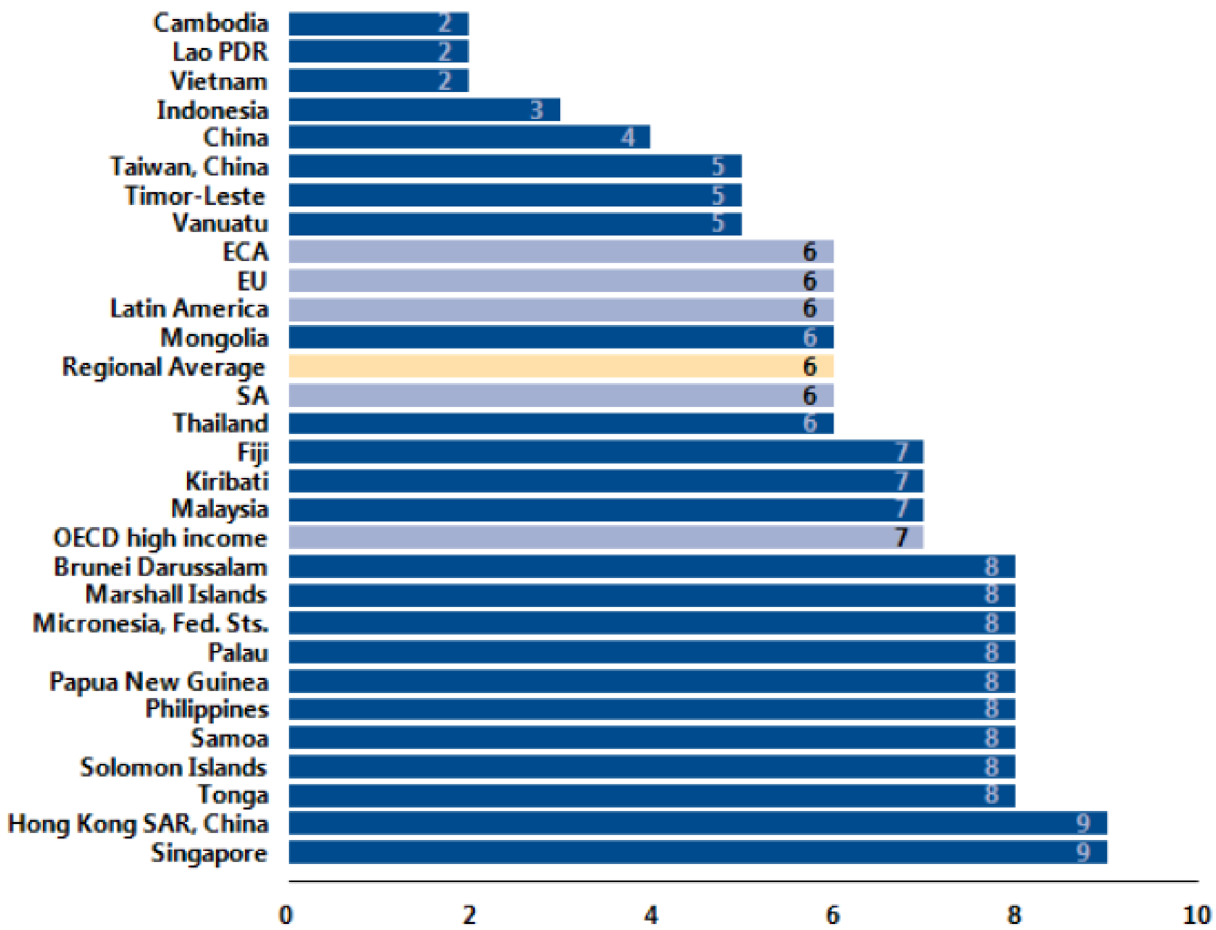
Protecting Investors – How economies in East Asia and the Pacific rank on the strength of investor protection index



Source: Doing Business in East Asia Pacific. (2012) The World Bank.

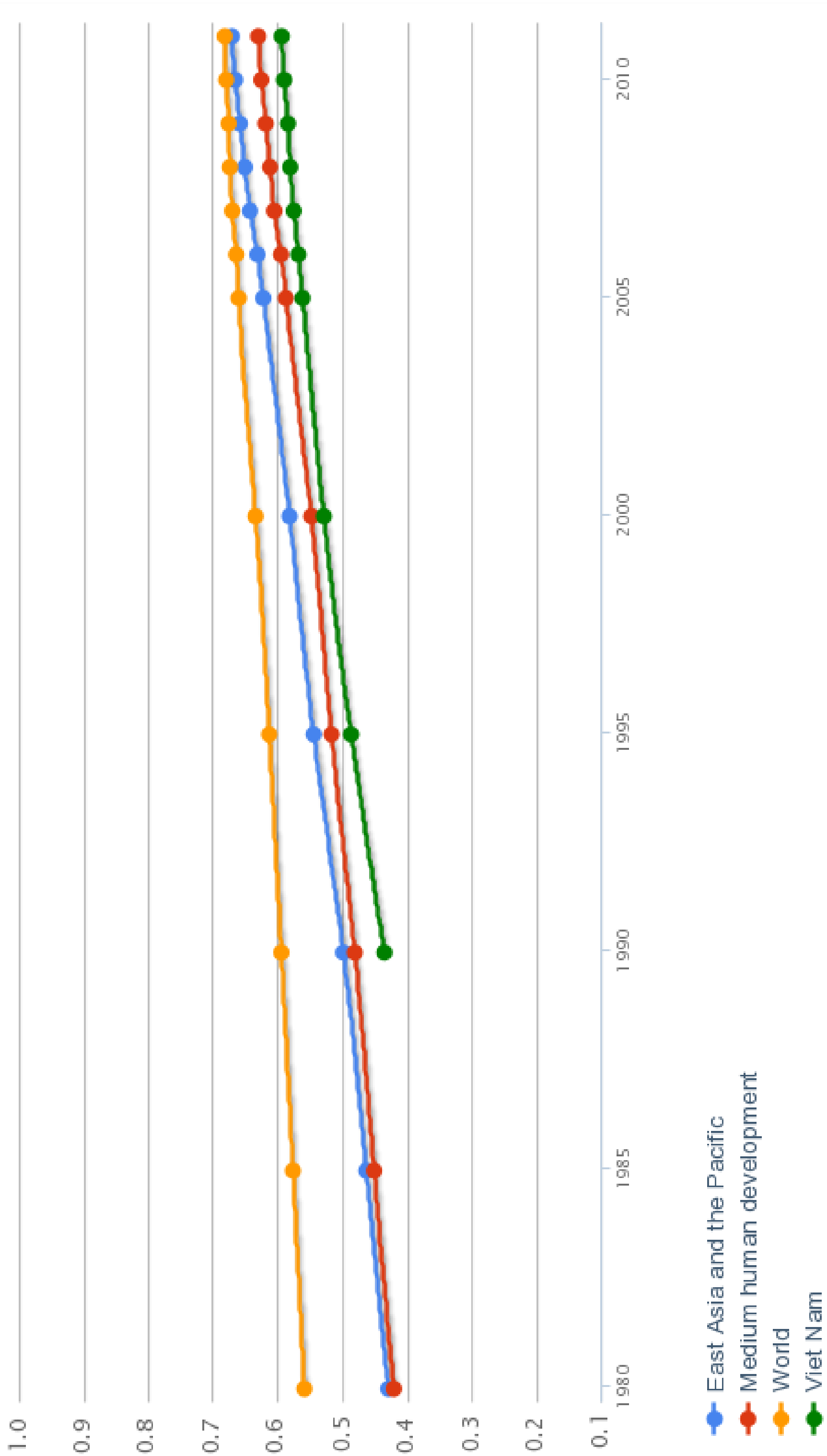
Appendix F

Ease of shareholder suits index (0-10)



Source: Doing Business in East Asia Pacific. (2012) The World Bank.

Appendix G – Human Development Index



Appendix H

European Union, Imports from... Vietnam

SITC Codes	SITC Sections	Value (Millions of euro)	Share of Total (%)	Share of total EU Imports
	TOTAL	12 800	100,0%	0,8%
SITC 8	Miscellaneous manufactured articles	5 265	41,1%	2,5%
SITC 7	Machinery and transport equipment	3 716	29,0%	0,8%
SITC 0	Food and live animals	2 386	18,6%	2,8%
SITC 6	Manufactured goods classified chiefly by material	913	7,1%	0,5%
SITC 2	Crude materials, inedible, except fuels	296	2,3%	0,4%
SITC 5	Chemicals and related prod, n.e.s.	110	0,9%	0,1%
SITC 9	Commodities and transactions n.c.e.	19	0,2%	0,1%
SITC 1	Beverages and tobacco	4	0,0%	0,1%
SITC 4	Animal and vegetable oils, fats and waxes	3	0,0%	0,0%
SITC 3	Mineral fuels, lubricants and related materials	0	0,0%	0,0%

European Union, Exports to... Vietnam

SITC Codes	SITC Sections	Value (millions of euro)	Share of Total (%)	Share of total EU Exports
	TOTAL	5 209	100,0%	0,3%
SITC 7	Machinery and transport equipment	2 460	47,2%	0,4%
SITC 5	Chemicals and related prod, n.e.s.	832	16,0%	0,3%
SITC 6	Manufactured goods classified chiefly by material	638	12,3%	0,3%
SITC 0	Food and live animals	493	9,5%	0,8%
SITC 2	Crude materials, inedible, except fuels	299	5,7%	0,7%
SITC 8	Miscellaneous manufactured articles	280	5,4%	0,2%
SITC 1	Beverages and tobacco	92	1,8%	0,4%
SITC 9	Commodities and transactions n.c.e.	43	0,8%	0,1%
SITC 3	Mineral fuels, lubricants and related materials	7	0,1%	0,0%
SITC 4	Animal and vegetable oils, fats and waxes	3	0,1%	0,1%

Source: EUROSTAT (Comext, Statistical regime 4); World excluding Intra-EU trade and European Union: 27 members.
trade.ec.europa.eu/doclib/html/113463.htm

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